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**CHAMBER SPEECH**  
**JUNE 26, 2012**

I asked a few people in the room what they thought I should talk about today. They said they thought I might be uncomfortable doing so, but that I should brag about all of the great stuff we have done. I assured them that I am completely comfortable doing so and that I thought it was a great idea! So, allow me to brag a little.

Let's start with what we have done to get the Commonwealth's fiscal house in order. When Governor Patrick stepped into office, there was much to be desired about the state's fiscal position and financial management.

We inherited the highest per capita debt load in the country.

Budgetary spending was supported by over \$1B in unsustainable revenue, leaving us with a massive structural budget deficit.

There was a lack of sound fiscal management policies in place, and even less transparency around state finances.

Let me give you an example from personal experience. When I started at A&F, I was in charge of the capital investment budget. When I arrived, I was handed these pieces of paper by

my predecessor [HOLD UP PAPER] and told that this was the five-year capital budget. It wasn't a publicly available document. It's hard to interpret. There was no rationale provided for why the amount of borrowing planned to pay for the projects was the right amount. Some projects already underway were about to run out of legislative funding authorization and were going to need to be shut down.

We clearly had work to do.

And work we have. We are proud of what we have accomplished to get the Commonwealth's fiscal house in order.

We're proud of the fact that we have annually developed a five-year capital investment budget based on a debt affordability analysis and policy that have been positively reviewed by the credit rating agencies. This is what our five-year plan looks like [HOLD UP], and everyone can easily get a copy or see it on-line.

We're proud of the fact that we are the first Administration to repeatedly receive awards for budget presentations from the Government Finance Officers Association.

We're proud that we've put the Commonwealth's checkbook on-line where all can see it and understand it, making us among the top states in the country in spending transparency. With a click of a button, anyone can now easily see how much money I or any other state employee makes, how each state agency

spends its money, and how much state government spent on office supplies from Staples or on telecommunication services from Verizon or on anything else from any other vendor.

We're proud of the fact that we have successfully and responsibly managed through the worst economic downturn in decades, even though it meant lots of tough decisions, cuts to programs and services and an 8% reduction in the state workforce.

We're proud of our success in working collaboratively with state employee unions to contain growth in wage and benefit costs. In a collaborative spirit of shared sacrifice, unions agreed to concessions holding average annual wage increases under Governor Patrick to the lowest level in the history of collective bargaining in the Commonwealth. Employees also took unpaid furlough days and pay more for their health insurance. These and other employee sacrifices have helped us save close to \$300 million – real money used to preserve funding for teachers and police officers and support services for those in need.

We're proud of the many ways in which we've streamlined, reformed and changed government to make it more efficient and save money, including the consolidation of our transportation agencies and other transportation reforms that saved over \$125 million in the first year alone. Speaking of transportation and reforms, I want to acknowledge the Governor's outstanding Secretary of Transportation who is here

today, Rich Davey. As we implement the planned fare and service changes at the MBTA next week and work to develop long-term solutions for our transportation system, we are fortunate to have Rich leading the way.

We're proud of the new prudent fiscal policies we proposed that are now law. For example, instead of using volatile and unpredictable tax revenues to pay for recurring budgetary expenses, capital gains tax revenues in excess of \$1 billion and any one-time tax and legal settlements in excess of \$10 million now must be deposited in the rainy day fund.

We're proud of our record of working with the Legislature to approve structurally balanced, fiscally responsible budgets.

We're proud of our disciplined use of – and deposits to – the rainy day fund, which has resulted in our having a projected rainy day fund balance of over \$1.5 billion at the end of FY12. If you exclude Alaska and Texas, which have billions in oil tax revenues flowing into their funds, ours is the highest reserve fund balance of any state in the country.

And we're proud that these and other steps to responsibly and transparently manage the Commonwealth's finances have been recognized by the credit rating agencies. In fact, they each now rate the Commonwealth's credit at AA+, the highest credit ratings the Commonwealth has ever had.

You in the business community get why government needs to live within its means. You know that high credit ratings mean easy access to cheap financing, and that in turn means savings for taxpayers. And, you all understand that the financial stability and predictability of state government has set Massachusetts apart from other states, making it a more attractive place for businesses to invest and grow.

While not everyone in his position has always understood these principles, I can assure you that Governor Patrick does – and his record proves it. Over the last few years, the Legislature has proved that they get it too. Speaker DeLeo and Senate President Murray deserve credit for their commitment to fiscal responsibility, as do my counterparts in the Legislature – Ways and Means Chairmen Brian Dempsey and Steve Brewer. I thank them for their partnership and their friendship.

While we have accomplished much, there is more to do. We are continuing to improve our fiscal management practices. One example of this is our recently published Long-Term Fiscal Policy Framework.

The Patrick Administration is the first to develop and publish five-year financial forecasts. These forecasts identify our biggest challenges to financial sustainability and help inform responsible budgetary-decision making. Together with these forecasts, the Policy Framework articulates policies and initiatives to address these challenges.

Ok, not the sexiest public policy initiative. But, here's why it matters. The public doesn't care whether we are in good economic times or bad. They ALWAYS expect their kids to be educated, their neighborhoods to be safe, their drinking water to be drinkable, their families to have access to affordable health care, their roads to be drivable, their parks maintained, and their work places safe. ALWAYS. Good times or bad. Providing a consistent and affordable level of programs and services over time is what the Policy Framework is all about.

One key to fiscal sustainability that the Policy Framework identifies is structurally balanced budgets. The Commonwealth has never had a policy around when it's ok to use one-time resources to support recurring budgetary spending, or when we should be depositing tax revenue into the rainy day fund so that it's there in the down times when we need it. Now we do. The Policy Framework articulates thoughtful policies to ensure structurally balanced and sustainable budgets, and we've been abiding by these policies for the past two years.

Another key to fiscal sustainability is containing growth in health care costs. Consistent with national trends, health care cost growth in Massachusetts has been outpacing everything else. This is true for families, businesses and government – health care has been eating up more and more of everyone's dollar.

In state government, health care consumed 23% of the budget in 2000 – today, it consumes 41% of the state budget.

That means everything else state government does has gotten crushed. We spend less on local aid, higher education and virtually everything else state government does than we did 12 years ago. Literally fewer dollars. Local aid - \$1.146B or 5.3% of the state budget in 2000; \$899M or 2.9% today. Higher education - \$996M or 4.6% of the state budget in 2000; \$927M or 3.0% today. And the list goes on and on. This trend is completely unsustainable. If allowed to persist, there will come a point where the only thing state government does is provide health insurance.

Despite what some have been saying on the national political stage, the growth in state health care costs is NOT due to Massachusetts health care reform. As the Massachusetts Taxpayers' Association reported, the incremental cost of health care reform to the state has only been about 1% of the total budget.

And, since we're on the topic, let me say one more thing about health care reform, just in case you aren't hearing enough about it this week! As the Chair of the Board of our Health Connector Authority responsible for implementing health care reform in Massachusetts, I care deeply about this issue. Regardless of what the Court decides, let me be clear – in Massachusetts, health care reform is here to stay! We – and by we, I mean all of us – led the nation on this issue and served as a model for providing tens of millions of Americans access to affordable, quality health insurance. I hope the Supreme Court doesn't prevent that from happening. Regardless of how the

issue gets resolved on the national stage, however, it is resolved here – and we will stay resolved, together, to give every single person in this state the peace of mind to know they can get quality health care when they need it.

But while the 2006 health care reform was successful at providing near universal coverage, it did not take on cost control. We're taking it on now.

Governor Patrick has been laser-focused on addressing health care costs. Thanks to a variety of innovative cost containment initiatives, the state has reduced its health care costs for the current and next fiscal years by about \$1.5B.

One example is the Group Insurance Commission or the "GIC". Through an active re-enrollment and targeted incentives to employees, the GIC enrolled one-third of state employees in limited network plans saving the state over \$20 million – and saving those employees and their families hundreds of dollars that went back in their pockets.

The Health Connector Authority used innovative, competitive procurements to incentivize plans to improve their cost structures, and they reduced per member premiums by 10% over the last two years, saving over \$100 million. Yes, I said "reduced" premiums by 10%.

We have helped municipalities reduce their health care costs too. With support from many in the business community, we



passed landmark legislation last year to establish a new, expedited process for municipalities, working with their employee unions, to modernize benefit plan designs to achieve savings. The reform has been wildly successful, with nearly 100 communities leveraging the law to achieve over \$100 million in premium savings in just the first year.

We're proud of these successes in containing growth in state health care costs, but our fiscal sustainability depends on a permanent solution. Just as Massachusetts led the way on health care reform for universal access to health insurance, we are on the verge of leading the way on cost containment reform. Among other things, this reform is about changing the way we pay for and deliver health care services to improve quality and reduce costs.

The Governor was before the Chamber a year and a half ago when he filed legislation and here again more recently to talk about his views on some of the specifics of the bills pending in the Legislature. I'm not sure if you picked up on it, but he kind of cares about this legislation! The bills passed by the House and Senate are now in conference committee. We are optimistic about the prospects for the legislation. I want to commend Chairman Walsh and Chairman Moore who are here today for their partnership and for their extraordinary and thoughtful work in the legislature to address growth in health care costs.

Lastly, the Long-Term Fiscal Policy Framework calls out the importance of addressing our long-term liabilities – namely, our debt and unfunded pension and retiree health liabilities. Our annual debt affordability analysis and policy is a rigorous analytical tool and thoughtful policy that has allowed us to responsibly manage our debt load. I think it's among the best in the country, and the rating agencies have positively reviewed it as well.

We have also addressed our unfunded pension liability. Last year, Governor Patrick proposed and the Legislature passed a comprehensive reform to modernize the pension system and the benefit structure. This reform increased retirement ages and made other changes that will save taxpayers over \$5 billion over the next 30 years. This reform wouldn't have happened without the thoughtful leadership of the then Chairmen of the Joint Committee on Public Service who are here today, Representative John Scibak and Senator Katherine Clark.

The pension reform legislation also established a special commission to study and make recommendations about how to responsibly address our unfunded retiree health care liability. This commission has been meeting and will issue its report in November. If we don't address this long-term liability, it will end up consuming more and more of every tax dollar, leaving less for everything else. We look forward to the recommendations of the commission and we're committed to doing what we need to do to ensure this challenge to fiscal sustainability is addressed.

The Long-Term Fiscal Policy Framework is about governing for the long-term. As you know, the Governor is committed to this principle. To their credit, the Speaker, the Senate President and the State Treasurer have all expressed their support for the Policy Framework.

What the Policy Framework does not do is assess whether that sustainable level of programs and services is the right level of programs and services. It doesn't assess whether we're fixing enough roads and bridges; whether we have enough firefighters; or whether we are making child care available to enough families. Rather, based on existing resources, the Policy Framework tells us what our affordable level of spending is over time. The long-term forecasts tell us that, even if the economy continues to grow and we successfully address all of the challenges to our fiscal sustainability I mentioned before, we will simply be able to maintain the existing level of programs and services as opposed to having to scale back further.

That means we need to continue to be relentlessly focused on changing the way government does business. In the context of our new fiscal reality, we need to do all we can to stretch every taxpayer dollar as far as possible. And we are.

We're changing government to get better results. We are aggressively implementing performance management throughout state government – clearly articulating goals,

developing strategies, collecting data to measure progress and using that data to inform decision-making to improve results. We are changing the culture of government to care less about how many programs we have to address the achievement gap, and care more about whether we are actually helping disadvantaged students perform better. Instead of focusing on how much we spend on job creation programs, we are focusing on how we use our limited resources most effectively to create more jobs.

This is happening. At our cabinet meeting last week, the Governor reviewed a dashboard with data on youth violence and we discussed initiatives he wants us to undertake to better align our various grant programs to drive our strategies for improving results. My secretariat, Administration and Finance, will be publishing our strategic plan this week, and we will be publishing strategic plans being developed across the executive branch with the budget in January.

We're also changing government by leveraging IT to drive innovative approaches to improve government services and lower costs for taxpayers. The RMV is a great example. No one likes waiting in line to renew their driver's license. Last year, two and a half million transactions happened on-line instead of in-line. This is easier and better for the public, and it's cheaper for government. We're leveraging technology in similar ways across state government – from e-licensing to paying taxes on-line.

And, we're ramping up these efforts. The Governor recently appointed an all-star Council of Innovation Advisors composed of the best and brightest from academia and business and government to help us find other innovative solutions to changing government. He will also soon be appointing a Government Innovation Officer whose job will be to wake up every day and focus on finding and implementing innovative changes to how government does business.

Performance management and innovative IT solutions are just a couple of the ways in which we are changing government. We're breaking down silos by implementing shared services across state government; we're changing homelessness and corrections and other policies and programs to get better results at lower cost; and we're trying new ideas like social innovation financing. Through this initiative, we will be the first in the country to raise private capital to fund innovative approaches to addressing some of our toughest social problems, and taxpayers will only pay if positive results are achieved. Better outcomes, lower costs – that's what the public should expect from us, and that's what we're focused on doing.

Before I conclude, I want to acknowledge the extraordinary members of my team who are here today and who have played such a big role in many of the accomplishments I mentioned. They and the rest of my staff are among the brightest, most dedicated, creative, and passionate people I have ever had the pleasure of working with.

I hope you leave here today knowing that we are doing all we can to manage the Commonwealth's affairs responsibly and effectively. The business community and every resident of this great state should expect nothing less of their government.

I also hope that you will continue to play an active role in supporting us in these efforts. Help us tell our story about how we are making government work better. Work with us to build consensus, to find paths forward, to solve problems. I am confident that, working together, we can build – and we will build - an even better Commonwealth.

Thank you.